



March 11, 2014

The Honorable Senator Leone
The Honorable Representative Tong
Co-Chairmen, Joint Committee on Banks
Legislative Office Building, Room 2400
Capitol Avenue
Hartford, Connecticut 06106

RE: H. B. 5470 An Act Requiring a Sales and Use Tax Exemption for Sales to Connecticut Credit Unions.

Senator Leone, Representative Tong and esteemed Members of the Banks Committee:

Thank you very much for the opportunity to testify before you today. On behalf of Connecticut's 119 not-for-profit credit unions I am testifying in support of Senate Bill 875, An Act Requiring a Sales and Use Tax Exemption for Certain Sales to Connecticut Credit Unions.

The State of Connecticut and the federal government decided long ago that credit unions should be exempt from state and federal corporate income taxes. Congress first established the exemption in 1937, affirmed by statute in 1951, and re-affirmed in 1998 by an Act of Congress, which stated:

"Credit unions, unlike many other participants in the financial services market, are exempt from Federal and most State taxes because credit unions are member-owned, democratically operated, not-for-profit organizations generally managed by volunteer boards of directors and because they have the specified mission of meeting the credit and savings needs of consumers, especially persons of modest means."

Please allow me to briefly elaborate on the distinguishing characteristics of credit unions listed by Congress.

Credit unions are member-owned. Each member has one vote in electing the directors of the credit union. Although other mutual financial institutions are member-owned, voting rights are generally based on the amount the customer has on deposit, rather than being "one member, one vote," as is the case with credit unions. Credit unions are governed by a volunteer, unpaid board of directors who are elected by the members of the credit union.

Credit unions can only accept as members those individuals who are specifically included in the credit union's field of membership.

All credit unions operate as not-for-profit financial institutions. All earnings are retained as capital or are returned to the member in the form of lower loan rates, higher rates on savings or to provide products and services that improve members' financial well-being.

Credit unions do not issue capital stock and are only able to build capital through retained earnings. Most credit unions began with little or no capital and gradually built it over time by retaining any excess earnings. The membership of the credit union owns all capital.

Because of these characteristics and because consumers need as much access to affordable financial services as possible, we believe it is good public policy to promote the viability of state-chartered credit unions by exempting them from the state sales tax and putting them on the same footing as federally-chartered credit unions. An exemption will promote state-chartered credit unions, preserve them, and create parity with their federal counterparts who are not subject to state sales taxes. In some cases, the federal charter is not an option for the smallest of credit unions. They struggle to survive without this exemption and will not survive without a local and accessible regulator.

State sales taxes make the state charter more costly to credit unions than the federal charter. As a result, there are currently more federally-chartered credit unions than state-chartered credit unions in Connecticut. More importantly, we are concerned that more state charters will convert in the future as a result of the added cost of this tax. In 2006, there were 41 state-chartered credit unions; today there are only 29. As state-chartered credit union numbers continue to decline, the sales tax revenue will be lost. If Connecticut does not eliminate this tax on state-chartered credit unions, the State will face a “lose-lose” situation. As state-chartered credit unions convert to the sales tax-exempt federal charter, Connecticut loses state supervision of these institutions, as well as any revenues previously received, which was projected by the Office of Fiscal Analysis in 2006 to be \$500,000 when there were 41 state-chartered credit unions. Now that there are only 29 state-chartered credit unions, the fiscal impact would certainly be less.

If the exemption is passed, federally-chartered credit unions will begin to look at the state charter as a viable option and charters will change, allowing the DOB to assess more credit unions each year, further mitigating the loss to the state. This exemption would not affect other taxes credit unions pay; both state- and federally-chartered credit unions pay payroll taxes, real estate taxes and personal property taxes.

We should preserve state-chartered credit unions because they are on the forefront of innovation, working with the state legislature and regulators to provide new and needed financial products and services to ordinary working families in Connecticut. A sales tax exemption will allow this innovation and service to members to continue. Connecticut residents are still struggling in our current economic climate; this exemption will be used to their benefit. Credit unions are not-for-profit, financial cooperatives that are mutually owned by their members and have unpaid directors who are democratically elected by the credit union members. Their only purpose is to serve their membership: Any savings achieved through this tax exemption will be returned to members in the form of better savings, lower loan rates, and improved services.

Credit unions are an important asset for Connecticut’s consumers and economy, serving over 900,000 people. As not-for-profits dedicated to their communities, current and future state-chartered credit unions would also use this sales tax exemption to further serve the communities or employee in their fields of membership. This exemption would allow credit unions to grow, adding to the nearly 2,200 individuals currently employed by Connecticut credit unions. As credit unions thrive, they will continue to create jobs and provide for economic growth while placing service to their members and communities as their highest priority.

The Banks Committee passed a sales tax exemption bill with the exception of one vote in 2006, 2007 and 2008 unanimously. On behalf of the 29 state-chartered credit unions and the 90 federally-chartered credit unions and their members in Connecticut, I ask you to please support HB 5470.

Thank you very much for the opportunity to testify.

Sincerely,

Jill Nowacki
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